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MMARS Policy: Payroll

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Mandatory and Voluntary Deductions: Tax Sheltered Annuity Plans

Executive Summary

Tax Sheltered Annuity (TSA) Plans

Tax Sheltered Annuity Plans or TSAs, as these are commonly referred to, are tax-deferred retirement plans available to employees of community colleges, state colleges, universities, and other qualified individuals employed in an educational capacity. Employees can contribute a portion of their before tax salary into a TSA plan up to certain annual limits set by the IRS. The Commonwealth publishes these IRS defined limits in a [Comptroller Fiscal Year Memo on Tax Updates](#) annually.

Considerations

The maximum contribution amount to a 403(b) account is MAC plus allowable catch-up contribution. This policy applies to Institutions of Higher Education and other educational Departments.

Policy

Maximum Amount Contributable (MAC)

IRS Bulletin 571 (Rev. March 2006) defines the Maximum Amount Contributable (MAC). For tax years after 2001, MAC is the lesser of the limit on annual additions, or the limit on elective deferrals.

Limit on Annual Deductions	(2006) \$44,000 or 100% of includible compensation (See IRS Publication 571).
Limit on elective deferrals	(2006) \$15,000. (See IRS Publication 571)

Catch-up Contributions for Persons Age 50 or Older

Beginning in 2006, if age 50 or older and the maximum annual amount of elective 403B deferrals has been made, the maximum additional 403B catch-up contributions is \$5,000 in 2006.

Sick, Vacation, and Back Pay Deferrals*

A Participant who retires may elect to defer accumulated sick pay in accordance with M.G.L. c. 29 if the requirements of this section are met. Only a person who is retiring can defer accumulated sick pay. In addition, a retiring participant may also defer accumulated vacation pay and/or back pay. A Participant who separates from service may elect to defer accumulated vacation pay and/or back pay if the requirements of this section are met.

The amounts may be deferred for any calendar month only if:

1. The amount would have been available for use or would have been paid to the employee if employment had not terminated,
2. The amount is paid within two and a half (2 1/2) months following Separation from Service, and
3. Back pay is pay received in a tax year(s) for actual or deemed employment in an earlier tax year(s). Back pay includes delayed wage payments as well as retroactive pay increases. Damages for personal injury, interest, penalties, and legal fees included with back pay awards, are not wages.

Post-Severance Compensation. Compensation for purposes of section 415(c)(3) can include Post-Severance Compensation if it's paid within 2-1/2 months after separation from service. But this is only for payments that would have been paid if the participant had continued in employment or if they are for bona fide sick, vacation and other leave. The leave-related severance payments can be included only if the employee could have used the leave had employment continued.

The amounts contributed to the TSA plan on the employee's behalf are not included in the employee's income for the purposes of federal and state income tax withholding, but they are subject to Medicare taxes.

TSA Deductions:

- Are administered by the Office of the State Treasurer and UMASS;
- Are offered to all employees of community colleges, state colleges, universities, and other qualified individuals employed in an educational capacity;
- Are available through a designated provider;
- Are deducted in every biweekly pay period;
- Are available on a voluntary pre-tax basis;
- The employee is required to complete a TSA form provided by the vendor
- TSA deductions should be stopped upon retirement/termination/death.

TSA contributions cannot be deducted from:

- Bonus
- Merit Pay

Internal Controls

Information Sources

- Related Procedure – None
- Legal Authority
 - [26 USC §403 \(b\)](#) Taxation of Employee Annuities
 - [IRS Publication 571](#), “Tax-sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations” (Rev. March 2006)
 - [IRS Publication 553](#), “Highlights of 2001 Tax Changes” (Rev. March 2006)
 - Massachusetts General Laws, [Chapter 7A](#), Sections 3, 7 and 8
- Attachments - None
- Links - None
- [Contacts – CTR Help Desk](#)

Revisions:

May 30, 2006 Revision – Eliminated Calendar Year Limits and referred the limit changes to Fiscal Year Updates on limits in effect. Added 2006 MAC limits. Added new Policy based on IRS regulations allowing for deferral of accumulated sick, vacation and back pay.

November 1, 2006 – Removed language referencing Knowledge Center and updated relevant links to Mass.gov/osc portal site.